

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 987 - HB 1299

March 5, 2021

SUMMARY OF BILL: Authorizes local municipalities to levy and collect an annual income tax from a person, partnership, or corporation earning incomes derived from dividends from stocks or interest from bonds. Authorizes the municipalities to set the rate, due date, and other features of the tax. Establishes that the first \$1,250 of income earned per person, or \$2,500 per joint filing, does not apply to the tax established by these municipalities. Authorizes the municipality to include other exemptions in their ordinance levying the tax. Requires the ordinance to be passed by a two-thirds majority of the municipality's legislative body. Defines municipality as an incorporated city.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – To the extent that all municipalities impose an income tax, the total annual statewide permissive increase in local revenue is estimated to be \$42,900,000 per each one percent of tax imposed. Further, a permissive increase in local expenditures associated with the collection of the tax will be incurred. Any such increase cannot be quantified with reasonable certainty.

Assumptions:

- Pursuant to Tenn. Code Ann. § 67-2-102, the current state income tax rate on incomes derived by way of dividends from stocks or by way of interest on bonds is one percent for tax year 2020.
- Pursuant to Tenn. Code Ann § 67-2-104 such tax does not apply to the first \$1,250 of income or \$2,500 for a joint filing; in addition, various other exemptions are authorized.
- Fiscal Review Committee staff estimates for this income tax FY20-21 are \$78,000,000.
- The number and size of municipalities that will impose the tax as authorized by this legislation is unknown. Further, the extent of any additional exemptions that a municipality may adopt is also unknown.
- Based on Fiscal Review Committee staff research it is estimated 55 percent of Tennesseans lives in an incorporated area for an estimated 1,428,511 households in incorporated municipalities (2,597,292 households x 55%).
- To the extent that all municipalities impose an income tax as outlined in this legislation with exemptions similar to that as provided for the state tax; the total statewide permissive increase in local revenue is estimated to be \$42,900,000 (78,000,000 x 55%) per each one percent of tax imposed.

- Furthermore, it is estimated that should any local government levy such a tax, there would be an increase in expenditures associated with the collection of the tax.
- The extent of such expenditures is dependent on multiple unknown factors, but would reasonably assumed to be paid for with proceeds from the tax imposed.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink that reads "Bojan Savic". The signature is written in a cursive, flowing style.

Bojan Savic, Interim Executive Director

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